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MNDY.OQ - Q1 2025 monday.com Ltd Earnings Call

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PRESENTATION

Operator

Good day. My name is Janice, and I'll be your conference operator today. At this time, I would like to welcome everyone to monday.com's first-quarter fiscal year 2025 earnings conference call.

I would like to turn the call over to monday.com's Vice President of Investor Relations, Mr. Byron Stephen. Please go ahead.

Byron Stephen - *Monday.Com Ltd - Vice President, Investor Relations*

Hello, everyone, and thank you for joining us on today's conference call to discuss the financial results for monday.com's first quarter fiscal year 2025. Joining me today are Roy Mann and Eran Zinman, Co-CEOs of monday.com; and Eliran Glazer, monday.com's CFO.

We released our results for the first quarter fiscal year 2025 earlier today. You can find our quarterly shareholder letter, along with our investor presentation and a replay of today's webcast under the News and Events section of our IR website at ir.monday.com.

Certain statements made on the call today will be forward-looking statements, which reflect management's best judgment based on currently available information. These statements involve risks and uncertainties that may cause actual results to differ from our expectations.

Please refer to our earnings release for more information on the specific factors that could cause actual results to differ materially from our forward-looking statements. Additionally, non-GAAP financial measures will be discussed on the call. Reconciliations to the most directly comparable GAAP financial measures are available in the earnings release and the earnings presentation for today's call, which are posted on our Investor Relations website.

Now let me turn the call over to Roy.

Roy Mann - *Monday.Com Ltd - Co-Chief Executive Officer, Co-Founder, Director*

Thank you, Byron, and thank you everyone for joining us today. We are pleased to report that 2025 is off to an exceptional start for monday.com. In Q1, we delivered robust revenue growth of 30% year over year, achieved record quarterly operating profit and generated our highest ever cash flow for a single quarter.

These results reflect the strengths of our multiproduct offering, the dedication of our teams and our continued focus on operational excellence. We also continue to invest in product innovation, including the launch of new monday work management capabilities and AI powered features which are being rapidly adopted by our customers.

As of the end of Q1, we've seen our user perform more than 26 million AI actions to date, up more than 150% since the end of 2024. We are thrilled to see such rapid growth in usage of AI as our customers utilize the features to automate complex tasks, extract insights and accelerate decision making. Our strong financial performance and discipline operations position us as to whether any uncertainties in the year ahead.

During times of market volatility, customers increasingly rely on monday.com for our flexible platform and cost effective solutions. Our adaptable product suite and scalable pricing enable businesses to stay agile, optimize resources and confidently manage the changing demands.

Let me now turn it over to Eran to walk you through some of our business and product highlights of the quarter.

Eran Zinman - *Monday.Com Ltd - Co-Chief Executive Officer, Co-Founder, Director*

Thank you, Roy. The enterprise continued to be our fastest-growing segment and present significant opportunities for market share expansion. And we are excited to be strengthening our efforts with these customers. In Q1, we launched a set of new capabilities available exclusively in the work management enterprise tier, designed to provide business leaders with enhanced visibility and control our execution across departments.

This includes exciting new features, such as AI-powered risk insights, AI-powered portfolio reports, managed templates, resource planning capabilities and more.

We are also very happy to announce the appointment of Casey George as Chief Revenue Officer. Casey brings nearly 30 years of experience in scaling enterprise software organization and driving strategic market expansion.

Most recently, he served as Executive Vice President of Global Sales at Qlik, where we offer saw \$1.3 billion in annual recurring revenue and led a global team of over 1,000 employees. His leadership track record also includes senior roles at Talent, Verint and IBM, where he successfully built and align go-to-market organizations across multiple business environments.

Casey will be based out of our North America headquarters in New York City. This marks an exciting milestone as we welcome our first global C-level leader to monday.com. We are confident that his expertise will further accelerate our enterprise growth, strengthen customer relationships and support the next phase of our go-to-market strategy.

In sum, the strong momentum we achieved at the close of 2024 has continued into the first month of 2025, setting a solid foundation for sustained growth. Looking ahead, we remain confident in our ability to execute on our strategic initiatives and capitalize on the significant growth opportunities that lie before us.

Despite recent macroeconomic uncertainty, we believe that our strong product offering, resilient business model and disciplined approach position us well to build market share and continue delivering value for customers and shareholders.

With that, I'll now turn it over to Eliran to cover our financials and guidance.

Eliran Glazer - Monday.Com Ltd - Chief Financial Officer

Thank you, Eran, and thank you to everyone for joining our call. As Roy and Eran mentioned, Q1 marked a strong start to 2025 with solid revenue growth and improving efficiency. Total revenue came in at \$282 million, up 30% from the year ago quarter. Overall, NDR was stable at 112% in Q1 with improving retention for our larger customers' cohort. As a reminder, our NDR is a trailing four quarter weighted average calculation.

For the reminder of the financial metrics disclosed unless otherwise noted, I will be referencing non-GAAP financial measures. We have provided a reconciliation of GAAP to non-GAAP financials in our earnings release. First quarter gross margin was 90%.

In the medium to long term, we continue to expect gross margin to be in the high-80s range. Research and development expense was \$53.8 million in Q1 or 19% of revenue, up from 16% in the year ago quarter. Sales and marketing expense was \$135.9 million in Q1 or 48% of revenue compared to 56% in the year ago quarter.

Net income was \$58.4 million in Q1 '25, up from \$31.7 million in Q1 '24. Diluted net income per share was \$1.10 in Q1 based on 53 million fully diluted shares outstanding. Total employee head count was 2,695, an increase of 187 employees since Q4. We continue to expect to grow head count by approximately 30% in fiscal year '25.

Moving on to the balance sheet and cash flow. We ended the quarter with \$1.53 billion in cash and cash equivalents, up from \$1.41 billion at the end of Q4. Adjusted free cash flow for Q1 was \$109.5 million, and adjusted free cash flow margin was 39%.

Adjusted free cash flow margin is defined as adjusted free cash flow as a percentage of revenue. We remain on target to meet our Investor Day goal generating over \$1 billion in free cash flow from fiscal year '23 to fiscal year '26.

Adjusted free cash flow is defined as net cash from operating activities, less cash used for property and equipment and capitalized software costs, plus costs associated with the build-out and expansion of our corporate headquarters.

Now let's turn into our updated outlook for fiscal year 2025. For the second quarter of fiscal year 2025, we expect our revenue to be in the range of \$292 million to \$294 million, representing growth of 24% to 25% year-over-year.

We expect non-GAAP operating income of \$32 million to \$34 million and an operating margin of 11% to 12%. For the full year 2025, we expect revenue to be in the range of \$1.220 billion to \$1.226 billion, representing growth of 25% to 26% year over year.

This forecast now assumes a negative impact from FX of less than 100 basis points. We expect full year non-GAAP operating income of \$144 million to \$150 million and an operating margin of approximately 12%. We expect full year adjusted free cash flow of \$310 million to \$360 million and adjusted free cash flow margin of 25% to 26%.

Let me now turn it over to the operator for your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Kash Rangan, Goldman Sachs.

Kash Rangan - Goldman Sachs Group, Inc. - Analyst

Well, thank you so much. Congratulations on a spectacular start to the year. With the new addition of your Chief Revenue Officer coming on board, I'm curious to get your take on what are the things about the go-to-market approach for monday, which has worked really so beautifully that you preserve with this new executive going forward?

And what are the things that you would like to be done differently, especially with the broader diversification of the product. We've got multiple products. Now you've got the work management, you got dev, you've got a CRM, a whole bunch of IT, et cetera. So given that the company wants to scale and become even more successful, what changes in go-to-market do you foresee ahead. Thank you so much, and that's it for me.

Eran Zinman - Monday.Com Ltd - Co-Chief Executive Officer, Co-Founder, Director

Hey, Kash. This is Eran. So first of all, I want to say we're very excited for Casey to join. He actually joined last week and it's been a long process, and we feel very confident about Casey joining the company. I can say that on one hand, I think, like you mentioned, it's a machine that we've built over the years that combines product-led growth with self-led motion.

And I think we would love to preserve our ability to do both performance marketing and to do more top-down selling at the same time. Also, the multiproduct strategy has been very successful. We definitely want to preserve that and scale that. I think Casey brings a lot of experience overall, but even more specifically, I think, can help accelerate our go-to-market upmarket motion.

It's been one of our most strategic pillars and things we'll be focused on as a company. Casey brings a lot of expertise and knowledge about selling to larger enterprises and scale in that operation, and I'm sure it's going to help us accelerate what we've already been doing. In addition to improving a lot of the things, increasing efficiency, and I think it's going to be a smooth transition with a lot of potential upside going forward.

Operator

Alex Zukin, Wolfe Research.

Alex Zukin - Wolfe Research - Analyst

Hey, guys. Thanks for taking the question. Congrats on a great quarter. Maybe just run us through what you saw this quarter from the CRM and the service business. And then that looked surprisingly strong actually according to our numbers. So just maybe give us a little bit of an explanation there.

And then on NRR or NDR, it was solid at flat at 112%. There were some moving pieces where it looks like it's continuing to strengthen upmarket. So maybe help us understand how to think about that going forward as we go through 2025. Thanks, guys.

Eran Zinman - Monday.Com Ltd - Co-Chief Executive Officer, Co-Founder, Director

Yeah. Thanks, Alex. This is Eran. So yeah, we see great momentum overall with our product suite. More specifically, Q1 had a strong performance in terms of net adds of customers. I think part of it is seasonality of our performance marketing spend.

Traditionally, Q1 is a strong quarter for us in terms of performance marketing investment and because of the nature of those products and the fact that it's a new go-to market for us. Just the net adds that we saw in Q1 were high and aligned with our expectations.

With that, I would say service is not just an SMB product. We see 70% of the ARR for monday service coming from mid-market and enterprise segments also strong momentum there. And for monday dev, we're very encouraged with the go-to-market. We're making some changes in optimizations.

And overall, we feel there's good momentum. So overall, it's very much in line with what we expected from Q1. Momentum is strong across all products, and we continued investment in terms of performance marketing going forward. In terms of net retention, I'll refer to Eliran.

Eliran Glazer - Monday.Com Ltd - Chief Financial Officer

Sure. Hi, Alex. It's Eliran. With regards to NDR, look, while we haven't seen any changes in customer behavior, there is more uncertainty in the macroeconomic environment. So when we think about NDR, currently, it's around 112%. We believe it's going to be slightly below 112% potentially by the end of the year, having in mind the uncertainty that they currently exist.

Operator

Pinjalim Bora, JPMorgan.

Pinjalim Bora - JPMorgan - Analyst

Just want to ask on your actions. It seems like that's growing exponentially. Maybe talk about that strength. How much of that is experimentation at this point versus being added to production workflows or automation? Have you heard any productivity improvements from customers? And have you started monetizing the actions at this point?

Roy Mann - Monday.Com Ltd - Co-Chief Executive Officer, Co-Founder, Director

Yeah. Hi. It's Roy. So yeah, we're very happy with the adoption on a lot of levels. First off, we see a lot of customers get a lot of value out of those actions and the numbers are great, but they don't really represent the value. It's like real business value in a lot of aspects.

And we are monetizing it. It's still, I would say, like the usage we see it dip in many areas, but the monetization is still early in early stages, and we're experimenting with it. We do see a correlation between usage and in pricing and the fact that people do actually pay when they get new real value.

Pinjalim Bora - JPMorgan - Analyst

Understood. One quick follow-up for Eliran. Eliran, can you help us understand the FX impact in Q1? And it seems like you're kind of taking down the FX headwind assumption, which makes sense, but the guidance is not coming up as much, right?

So I wanted to ask you, anything you said you're not seeing any change in behavior, but is that purely based on prudence? Or is there anything that you're seeing at this point?

Eliran Glazer - *Monday.Com Ltd - Chief Financial Officer*

Yeah. Sure, Pinjalim. So we did have some negative FX impact to Q1 revenue. But as a reminder, when we started the year, once the tariff was announced, FX became very volatile. Going into April, there is some more balanced trends. So we assume that the effect for the entire year is going to be less than 1%.

And the reason not everything is reflected in the guidance because we did take a more conservative approach with regards to our expectations for the end of the year because of the macroeconomic situation and the uncertainties that still exist.

Operator

Arjun Bhatia, William Blair.

Arjun Bhatia - *William Blair & Company L.L.C. - Analyst*

Perfect. Thank you, guys and congrats on the strong Q1 here. One if I can ask, it seems like the (technical difficulty) market margin, it seems like you're seeing quite a bit of success there, especially with the core work management offering moving up.

I guess my question is as the work management offering moves upmarket, does that drag your other solutions upmarket as well with CRM service dev. And what kind of traction are you seeing there? Are those on their own independent trajectory to enterprise on its own from work management? How would you think about that? Thank you.

Roy Mann - *Monday.Com Ltd - Co-Chief Executive Officer, Co-Founder, Director*

Hi. It's Roy. So yeah, you're right. Like work management is going a lot up market. We're leading that category also in all their reviews. And we're seeing a lot of deep features or capabilities that we're releasing that enterprise really need to manage things at scale.

Regarding other products, it varies according to each product. So for example, service is obviously targeted into the larger customers like mid-market to higher size while CRM, we see a lot of success in the SMB low mid-market.

And so, one may not have that impact on the other like you suggested, and each product has their own path. Having said that, I'll tell you we push all the poor products upwards all the time. As we increase the capabilities and deepen each product suite ecosystem, we naturally go up market.

Operator

Steve Enders, Citi.

Steve Enders - *Citigroup Inc. - Analyst*

I guess, I just wanted to dig a little bit more on to the guide. I just want to get a better sense for how the uncertainty that you're seeing with customers is playing out with the assumptions that you're making? Just anything on, I guess, as it related to deal cycles or deals pushing or conversion rate change assumptions? Just how is the, I guess, uncertainty actually manifesting into how you're thinking about, I guess, what's incrementally changed with the outlook versus before?

Eliran Glazer - *Monday.Com Ltd - Chief Financial Officer*

Sure. Hey, Steve, it's Eliran. So first of all, overall customer growth, we believe it's going to be in the mid to high single-digit growth year-over-year. We still continue to believe that it's impact, as I mentioned earlier, is going to be less than 1% as we have seen it's very volatile. Overall NDR that always is taking into account as part of guidance, we said it's going to be slightly below [112%].

We don't have any revenue from AI that we are currently taking into account in fiscal year 2025. And we have a very small amount of monday service revenue that we built into the guidance. But I think all of that is, again, we see some uncertainty in the market still exists with everything that is going on. We did take a more conservative approach, and we want to see how it's going to develop throughout the year.

Operator

(Operator Instructions) Brent Thill, Jefferies.

Brent Thill - *Jefferies LLC - Analyst*

Thanks. Curious if you could just give us a sense of what you saw in April versus March and how the current quarter is trending. And just curious if you looked at enterprise versus SMB, any notable trends that you're seeing? Thanks.

Eran Zinman - *Monday.Com Ltd - Co-Chief Executive Officer, Co-Founder, Director*

Hey, Brian. This is Eran. Yeah. I mean across all segments, enterprise and SMB is pretty consistent throughout Q1 and also going into April. So we don't see any major changes, still enterprise is our fastest-growing segment, but pretty much in line with what we saw in Q1.

And also, we've seen very strong demand in terms of mid-market and in Q1 and also going into April. Let me mention like the net adds was strong in Q1 as we expected. So I would say, all in all, it's pretty much in line. We don't see anything special going into April.

Operator

Brent Bracelin, Piper Sandler.

Brent Bracelin - *Piper Sandler & Co - Analyst*

Thank you for taking the call here. I wanted to double-click into the larger cohort of customers. Another good quarter here of expansion. How much of the momentum here is driven by cross-sell, where larger enterprises are actually adding new apps versus expansion. Obviously, expansion has been the biggest driver of the move-up market. Wondering how much of a role cross-sell has now as well in aiding that move. Thanks.

Eran Zinman - *Monday.Com Ltd - Co-Chief Executive Officer, Co-Founder, Director*

Yeah. Hi, Brent. This is Eran. So look, definitely, a lot of the expansions are -- a lot of the enterprise accounts are coming from expansions of accounts that kind of grew within the platform. We do see more and more accounts that closed bigger deals from the beginning, but I would say still the vast majority is account expanding. We do see more cross-sell definitely on a month of service.

It's more meaningful, but also happens with other products. I would say the vast majority of like the major expansions we see today are based on adding significant amount of seats and not like significant cross-sell yet. But over time, we think this will change, obviously.

Brent Bracelin - Piper Sandler & Co - Analyst

Helpful color. And then just one follow-up for Eliran, if I could. You talked a little bit about linearity in the quarter. Could you talk about geo? Obviously, we're all kind of nervous around what happens next. It sounds like things continue to plug along here for you. But from a geo perspective, was there any unusual activity by any geography? Or again, was it still pretty balanced for what you've seen so far?

Eliran Glazer - Monday.Com Ltd - Chief Financial Officer

Yeah. Hey, Brent. So the short answer is demand has been healthy and consistent across all regions in Q1. We didn't see anything that we can call out in a different manner.

Operator

Jackson Ader, KeyBanc Capital Markets.

Jackson Ader - KeyBanc Capital Markets Inc. - Analyst

Thanks for taking our questions, guys. The first one on dev. The customer additions saw a really nice bounce back here in the first quarter. And so, can we just get an update on where we are in the timing of dev's repositioning in the market? Thank you.

Eran Zinman - Monday.Com Ltd - Co-Chief Executive Officer, Co-Founder, Director

Yeah. So, Jackson, this is Eran. So look, I mean, overall, we're happy with the progress with monday dev. And definitely, we see momentum there and the team is doing a great job. It's good see for customers -- I would say, the change in the growth, most of the change in terms of customer adds in Q1 was stronger performance marketing that we're able to span efficiently.

So there's not like major go to market change in monday dev. And it's more of a seasonality, I would say, that's kind of skewed a little bit towards Q1. But yeah, I mean, overall, we're happy with the progress. The team is launching a lot of new features and capabilities, and there's good feedback from customers. So overall, we're happy with the progress and the momentum.

Jackson Ader - KeyBanc Capital Markets Inc. - Analyst

Okay. Great. And then just as a quick follow-up. I mean if you think periods of uncertainty and that might manifest itself in the business. I mean do you expect would be -- how would that show up? Would it be your performance marketing channels like top of funnel becomes more difficult? Is it people buying more standard basic instead of pro. What does that look like if it were to happen?

Roy Mann - Monday.Com Ltd - Co-Chief Executive Officer, Co-Founder, Director

Hi. It's Roy. So I think what we saw is like in the past is that for larger enterprises, it takes more time to buy, more decision-making and they might optimize way more scrutinize over seats and see that each one is like really used over time. So that's where we see things.

Like I can say right now, from where we look at things, the demand is very healthy. And we're able to continue in investing growth in a very good way and also expand really well. But again, that's what happens and sometimes that's what we see in different years.

Operator

Michael Berg, Wells Fargo Securities.

Michael Berg - Wells Fargo Securities, LLC - Analyst

Hi, there. Thanks for taking my questions and congrats on the quarter. I wanted to touch on the hiring plans. You had another uptick on year-over-year growth. I know there's a lot of focus around high enterprise sales reps.

So maybe you can help us give us some better color on the typical timing of ramps for enterprise sales reps and how much of the contribution from this new cohort of sellers is embedded in the guidance? Thanks.

Eran Zinman - Monday.Com Ltd - Co-Chief Executive Officer, Co-Founder, Director

Yeah. Hi, Michael, this is Eran. So yeah, I mean, overall, we see strong hiring trends in Q4 and into Q1. Just to mention in Q1, we added about 187 new employees. And overall, there's almost 2,700 people in the company. And we expected to see this going into Q2 and the remainder of the year.

Just as a reminder, we expect to grow our headcount this year in about 30% overall. I would say the vast majority of our investment goes into the CRO organizations and mostly around salespeople that are doing the enterprise motion and also R&D. That's a big part of our investment. It sends us improving product and our road map.

And yeah, look, we see a lot of opportunity to upsell and extend our existing customer portfolio. The hiring pretty much start with the performance that we see in the return on this at. So far, we're very happy with the results, and we continue to invest through the remainder of the year.

Operator

Tom Blakey, Cantor.

Tom Blakey - Cantor Fitzgerald & Co. - Analyst

Hey, guys. Thanks for squeezing me in here. Just maybe a couple of quick ones. You mentioned the use of MCP in your shareholder letter. There's been an uptick in that in recent months. I'd just like to know how you're planning on using that and it's going to open up the Work OS platform for other agents and other applications across other larger platforms. That's a question.

And then secondly, as you're moving upmarket, any changes in competition that you're seeing maybe in the recent months in 1Q and recent months? Any change there that you're seeing any win rate changes, that would be helpful as well. Thanks for taking the question.

Roy Mann - Monday.Com Ltd - Co-Chief Executive Officer, Co-Founder, Director

So, hi. It's Roy. So regarding the MCP, it's super exciting. It's a new way for LLMs to interact with the platform. And I think we're happy, we're like one of the first to kind of release it and adopt it. It is going to, in general, allow anyone to interact better with monday also to build stuff to work with the platform better.

We're always like our approach is being very open also to developers and our customers that can build whatever they want. And I think MCP is a great addition into that AI tool set. And it's very early days, right? Like you say, it's being picked up. It was invented in the last quarter. So like that's moving really quickly. And I think a lot of really good things are coming that way.

Eran Zinman - Monday.Com Ltd - Co-Chief Executive Officer, Co-Founder, Director

Regarding the second part of your question, we don't see any changes in terms of -- this is Eran, we don't see any change in terms of competition or win rates across enterprise and SMB mid-market segment. So no changes here.

Operator

Michael Funk, Bank of America.

Matt Bullock - BofA Securities, Inc. - Analyst

Great. Good morning. This is, Matt Bullock on from Mike Funk. My questions on monday CRM looks like a really strong quarter with net adds accelerating. Maybe if you could just comment on what you're seeing out there in terms of competition, who you're seeing out there most often during RFPs win rates? And then maybe what's resonating most significantly with customers from a functionality standpoint?

Eran Zinman - Monday.Com Ltd - Co-Chief Executive Officer, Co-Founder, Director

Yeah. Definitely. Hi, this is Eran. So in terms of CRM. So we don't see any changes I would say in the last quarter in terms of competition. I would say the players we meet the most would be, Pipedrive, Zoho, SugarCRM, [Hotspots] from time to time. So it's mostly, I would say players that focus right now on SMB mid-market, that would be the most.

And I think here the power of the platform, the flexibility played a major role in why we win and why customers prefer to purchase monday over other solutions. But definitely, we keep investing into the product and over time we'll sell to hopefully larger and larger enterprise as we add more enterprise functionality.

Operator

Raimo Lenschow, Barclays.

Raimo Lenschow - Barclays - Analyst

Perfect. Thank you. Thanks for squeezing me in. Question on cash flow. You had a very strong in Q1. Was there anything special in there that we should be aware of? And how should we think about seasonality for the rest of the year there? Thank you.

Eliran Glazer - Monday.Com Ltd - Chief Financial Officer

Sure. Hi, it's Eliran. So with regards to seasonality, Q1 is usually our strongest quarter. In Q2, you have the bonus payments to the salespeople, the results of the hiring in Q1, the salary increases and the comp adjustment that we are doing in Q1, some events or they are all kind of in Q2.

So Q1, usually at the beginning of the year, we see strong billings and collections from customers that acquired our products and solution at the end of the year. Overall, in accordance with what we gave as part of our full year guidance, this is the level that we are expecting throughout the year.

Operator

DJ Hynes, Canacord.

David Hynes - *Canaccord Genuity - Analyst*

Hey, good morning, guys. Eliran, if we strip price out from the NRR calculus, what are the underlying trends look like there? Are they more stable? Or are they still trending upwards?

Eliran Glazer - *Monday.Com Ltd - Chief Financial Officer*

I think they are more stable pretty much. We said last year that the contribution of price increase would be around 1% to 2%. Now obviously, the impact was mostly (inaudible) so I would say more stable by and large.

David Hynes - *Canaccord Genuity - Analyst*

Yeah. Makes sense. And then Eran or Roy, so if I think back to last year, Q2, Q3, you had some pretty major seat expansion deals with some of your largest customers. I'm curious what the appetite looks like within those folks for additional product adoption, right?

I mean, they've recently made big bets with you guys. Is there some digestion that needs to happen? Or does that increase surface area actually make it more likely that they add additional functionality sooner?

Eran Zinman - *Monday.Com Ltd - Co-Chief Executive Officer, Co-Founder, Director*

Yeah. Hi, DJ, it's Eran. So look, I think when it comes to CRM and dev, I think those products are not mature enough in order to be kind of cross-sell to large enterprises. We're talking here, let's say, over 10,000 seats. But we see some maybe surprising momentum with monday service, where there's more adoption with the larger enterprises.

So here, I think there's an opportunity for more cross-sell to larger customers. So I think it's still premature for CRM and dev, but with monday services more potential. We're starting to see more and more cross-sell, not just for SMBs in market, but also for enterprise customers.

Roy Mann - *Monday.Com Ltd - Co-Chief Executive Officer, Co-Founder, Director*

And if I can add, so we do see for some of them that they adopted really well and people are using and they have like appetite, like you said, for growth.

Operator

Connor Murphy, Capital One.

Conner Murphy - *Capital One - Analyst*

Hey, good morning, guys. Thank you. I just want to take another crack at the NDR downtick in guidance. In the last quarter, you thought it was unstable for (technical difficulty) this year, it sounds like you're now it's going to be below 112%.

Can you just unpack that a little more. It sounds like trends are stable through April, expansion sounds pretty good with larger customers. Is it purely just conservatism because of the macro? Or is there anything else you guys can give us on that? Thank you.

Ernan Zinman - Monday.Com Ltd - Co-Chief Executive Officer, Co-Founder, Director

Hey, Conner. It's Eliran. Again, it's mostly the recent uncertainty, and we did take some conservatism for our NDR expectations because really we don't know how it's going to evolve throughout the year. I would say this is probably the most significant factor.

Operator

Scott Berg, Needham.

Scott Berg - Needham & Company - Analyst

Hi, everyone. Nice quarter. Eliran, I wanted to expand on the answer you gave to, I think it, was Brent earlier around geographic traction on what you've seen there. It looks like your European business, in particular, did see some kind of, I don't know, meaningful growth deceleration in the quarter.

Was it something on the sales side? Or was there an FX component? I'm trying to understand why that growth in that particular geo was meaningfully different from last quarter? Thank you.

Eliran Glazer - Monday.Com Ltd - Chief Financial Officer

So hi, Scott, it's Eliran. With regard to Europe for the last year, we saw some weakness when we called it out versus North America. North America continues to be strong. I think sure, there is some challenges in the region in some places. But overall, I think we are getting a more clearer picture. We're actually stabilizing -- still not what we are seeing in North America. But overall, we are pretty happy with the progress that we are seeing there.

Operator

Taylor McGinnis, UBS.

Taylor McGinnis - UBS - Analyst

Yeah. Hi, thanks so much for taking my question. So if I look at the guide from 2Q through 4Q, it implies stability and growth in the mid-20s. So Eliran, could you just walk us through the different assumptions and what's supporting your comfort and stability in the mid-20s?

I think before you talked about price contributing an incremental \$40 million and then seeing CRM, dev and service scaling to maybe low-teens there. So any changes in those inputs or second half growth catalysts that could offset some of the macro headwinds potentially? Thanks.

Eliran Glazer - Monday.Com Ltd - Chief Financial Officer

Sure. So nothing has changed. Our approach and philosophy to guidance has been consistent. As I said, it's a bit more conservative due to the factors that I mentioned earlier, just to recap them really quickly. The overall NDR, that is going to be below [112%]. The FX impact potentially customer growth that is going to be mid to high single digits.

In the past, we said high single digits, but we got to a scale of 245,000 customers at the end of last year and now we're focusing more on expanding rather than growing them. We're still going to increase head count in a significant way, 30%. So I think all of these reasons are taken into account when we think about the guidance, but nothing really changed in the philosophy or the way we are building our guidance.

Operator

Allan Verkhovski, Scotiabank.

Allan Verkhovski - Scotiabank - Analyst

Hey. Thank you for taking the question. Can you unpack what stands out in terms of what types of customers are using AI credits more than others? And then considering the financial framework you laid out at the last Analyst Day through fiscal '26, can you just reconcile what macro we're in today relative to the base case scenario? Thanks, guys.

Roy Mann - Monday.Com Ltd - Co-Chief Executive Officer, Co-Founder, Director

Okay. I'll take the AI one. So what we see now is that with AI blocks, we've released something that is a very core capability is something that you can do. And where we see adopting the most where we have champions that are more tech-oriented or solution-oriented and they are playing with it and use it.

What we are doing now is like understand those use cases and then rolling them out and explain more deeply with templates, with use cases to other customers, like what can they use it for and how can they build solutions that really give them value. So it's like any technology. You're starting with the people who adopt it and then you productize it more and more and more and give it in more people's hands.

Eliran Glazer - Monday.Com Ltd - Chief Financial Officer

Sure. Allan, it's Eliran. I'm now going to take the question on the Investor Day model. So we are still in the base case, best on core performance. We haven't seen anything guided to a weakening macro.

And when we see it, we called it out, like we said about our conservative approach to guidance. We do see some improvements to the margins that we have said that we are going to get at the Investor Day. But other than that, we continue with the base case scenario.

Operator

Rob Oliver, Baird.

Rob Oliver - Robert W. Baird & Co Inc - Analyst

Great. Thank you, guys. Good afternoon. Two part question on go to market first. On the Casey George hire. I just would love to hear from you guys, perhaps, Roy. What was it about his background in particular that made him the right fit for you guys. I'm sure you guys certainly had your pick.

And then secondly, would just be curious as you have more success moving upmarket how if at all the partner strategy needs to evolve. Thank you very much.

Eran Zinman - Monday.Com Ltd - Co-Chief Executive Officer, Co-Founder, Director

Yeah. Hi, Rob. This is Eran. So I would say a combination of a few things. I've mentioned the enterprise experience at the beginning of the call. So that's definitely was a key part of what we felt like Casey can be a major accelerator to our strategy. Also, I think his previous experience was one in larger enterprise, but also in smaller companies and also in his last company, he managed a large-scale customer, over 50,000 customers.

So I think he kind of brings the knowledge of on one hand going upmarket and dealing with large enterprises on the other hand, dealing with large amount of organizations that customers on the semi funnels, large numbers and kind of more of an analytical approach to sales and go to market.

So overall, I think for us it was the perfect fit in terms of on one hand, sending the perplexity of managing a large customer base. On the other hand, scaling to large enterprises and doing more top-down selling. I would say also on a personal level, we felt strong connection and felt like it's going to be a great opportunity to work together and come with saw eye-to-eye on what's important for us in terms of managing the team and scaling the team going forward.

So that's kind of the high level and as I said, we're very excited for him to join and be part of the team. In terms of partner strategy, so I would say that pretty much didn't change in the last quarter, but overall, I would say a combination of one focus on additional geography that we don't have self presence.

And partners help us reach enterprise customers and scale scale our sales operation. They also bring a lot of technical expertise. A lot of our partners are doing professional services to customers. They help with anywhere from data migrations, integration, to help them build solution on top of monday and they offer like [white last] implementation services for customers.

And also, we have partners that specialize in specific industries so they can help with specific knowledge on specific limitation for industry. Overall, I would say we continue to invest. Partners is a big part of our go to market motion as a company if anything it become more significant over time. I think Casey sees the same way as we do about partners and potential and we continue to invest in that part of the business going forward.

Operator

(Operator Instructions) Ladies and gentlemen, that concludes today's call. Thank you all for joining. You may now disconnect.

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